UK High Yield:

A Hidden Gem in Global Credit Markets

September 2025

With a history of superior risk-adjusted returns, a consistent yield advantage, and a market structure that rewards deep research and active management, UK high yield stands out as a compelling opportunity within global credit portfolios. A combination of technical factors—including smaller market size, investor restrictions, and issuer concentration—creates inefficiencies that reward investors able to navigate this segment, enhancing both return potential and portfolio diversification. In this respect, we believe that investing in UK high yield brings meaningful returns and diversification benefits that extend well beyond traditional regional exposures, making it a valuable complement to broader high yield allocations.

In this note, we will explore why the UK high yield landscape is a hidden gem, including:

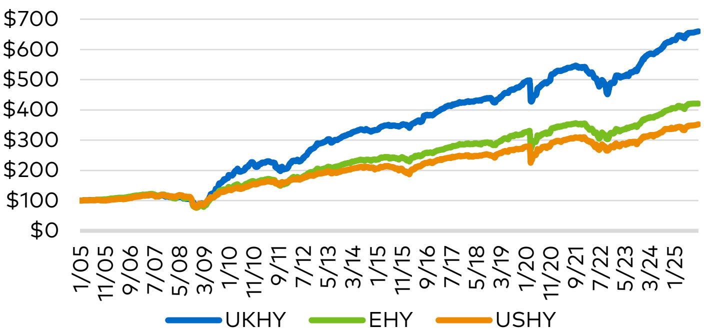
- Compelling history of strong risk-adjusted returns
- Persistent yield and spread premiums for comparable credit risk
- Market features that create differentiated opportunities for active investors
- Technical factors driving structural supply-demand dynamics

Superior Long-Term Performance

Over the past two decades, UK high yield has quietly outpaced its peers by a remarkable margin. As shown in Figure 1, $100 invested in UK high yield 20 years ago would have grown to $660, nearly double the $350 generated by the same investment in US high yield.

Figure 1: Growth of $100: UK, European, and US High Yield (2005-2025)

20-year Total Return, UKHY vs. EHY vs. USHY



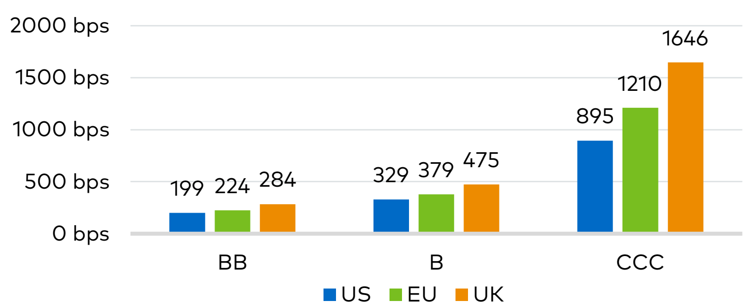
Source: ICE Data Indices, as of 6/30/2025. Data reflects the ICE BofA Euro, US, and Sterling High Yield Constrained Indices (returns hedged to USD), January 2005–June 2025.

This impressive +9.7% annualized return demonstrates the UK market's potential to deliver sustained outperformance, making it a notable contributor to long-term credit allocations.

Persistent Yield and Spread Advantage

UK high yield stands out for its consistently attractive yield premium over comparably rated bonds in both European and US high yield markets. As illustrated in Figure 2, as of June 30, 2025, UK high yield delivers a distinct spread advantage across rating bands, meaning investors are compensated with higher yields for taking similar levels of credit risk. Even a modest yield premium, when sustained over time, can significantly amplify total returns through compounding—making long-term market differences especially meaningful. This compounding effect has contributed to UK high yield's outperformance compared with its global peers, as demonstrated in Figure 1.

Figure 2: Spread Analysis: US vs. Europe vs. UK



Source: ICE Data Indices, LLC, as of 6/30/2025. Indices: ICE BofA US (H0A0), Euro (HEC0), and Sterling (HL00) High Yield. Spreads to Worst vs. government bonds (bps).

Boots—Capturing the UK Premium

Recent deals continue to highlight UK high yield's compelling spread advantage. In July, the UK pharmacy chain Boots issued $4.5 billion across five tranches of loans and bonds to fund its acquisition by Sycamore Partners. Notably, the GBP-denominated tranches came with a significantly wider spread than their EUR and USD counterparts. Investors in the sterling tranches enjoyed an incremental 125 basis point (bp) spread pickup compared to equivalently rated and ranking euro and dollar loans within the same structure. The Boots transaction vividly illustrates how the UK market can offer an additional yield for incurring similar credit risk.

Figures 3 and 4 provide a closer look at this pricing differential. Figure 3 breaks down the margins on each tranche of loans issued in EUR, USD, and GBP to finance the acquisition, clearly showing the relative premium in the sterling market. Figure 4 illustrates the spread levels for the bonds issued in EUR and GBP, again highlighting the pronounced spread premium available to investors in the UK segment.

Figure 3: Loans Issued for Boots Acquisition—Margin by Currency

Currency	Size	Tenor	Rating	Margin
EUR	€1,075m	7 years	B1/B+	E+350
USD	$1,500m	7 years	B1/B+	S+350
GBP	£375m	7 years	B1/B+	S+475

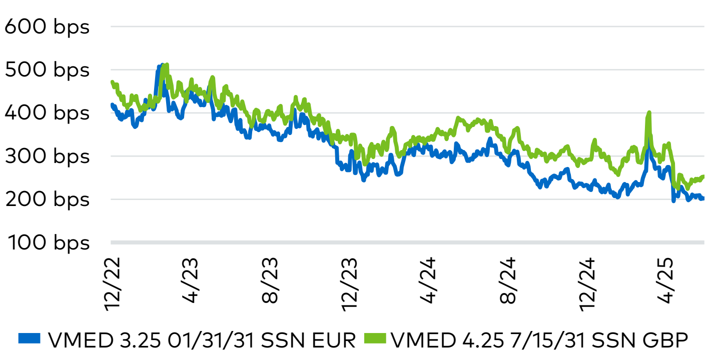
Figure 4: Bonds Issued for Boots Acquisition—Spread by Currency

Currency	Size	Tenor	Rating	Coupon	Spread
EUR	€650m	7 years	B1/B+	5.375%	297bp
GBP	£375m	7 years	B1/B+	7.375%	311bp

Virgin Media: Tapping into the UK High Yield Spread Advantage:

Virgin Media, a prominent issuer in the high yield space, regularly taps the market in GBP, EUR, and USD. As illustrated in Figure 5, the company's sterling-denominated bonds have typically traded at a 40–50 basis point spread premium compared to equivalently rated euro bonds. This isn't an isolated case: several major issuers display similar dynamics, reinforcing that the UK high yield market consistently rewards investors willing to look beyond the largest regional markets. For those with the flexibility to access GBP-denominated bonds, this persistent premium translates into meaningful structural yield enhancement.

Figure 5: Virgin Media 2031 GBP vs. EUR Senior Secured Bond Spreads



Source: As of 06-30-2025. Ice Data Indices, LLC. ICE BofA Euro High Yield Constrained Index, ICE BofA Sterling High Yield Index.

Market Size and Liquidity

In our view, the main reason UK high yield offers an additional premium is its smaller market size and perceived liquidity risk. The UK high yield index, with approximately £30billion in bonds outstanding, is significantly smaller than the €400bn European high yield index. Despite the lower average issue size, we believe UK high yield offers sufficient depth and liquidity, and that investors are overcompensated for the perceived illiquidity risk. In fact, the smaller market size creates opportunities that many larger investors may overlook or be unable to access, resulting in a less efficient market where informed and patient investors can potentially generate excess returns.

Importantly, we believe that technical factors, rather than issuer fundamentals, are the most significant driver of the UK high yield spread premium. Many institutional investors face restrictions on owning sterling-denominated securities due to mandate language, guidelines, or operational limitations. This dynamic leads to persistent supply/demand imbalances and higher yields for those able to access the market.

> **For investors with the flexibility to buy GBP-denominated bonds, this technical dislocation may present an "easy win," offering additional yield and return potential without a commensurate increase in credit risk.**

Local Presence: An Informational Edge

Our team has covered the majority of existing UK high yield issuers for well over a decade. This long-standing local presence—and our direct relationships with company management, sponsors, and advisors—gives us a distinct informational edge in conducting rigorous due diligence, evaluating new issuance, and making decisions in secondary market trading.

Our ability to access management teams directly, and to maintain a current, nuanced understanding of sector and issuer dynamics, is especially valuable in a concentrated market like the UK's high yield universe.

Reflecting this conviction, the Polen Capital European High Yield strategy typically targets a 10–25% allocation to GBP-denominated UK high yield bonds. We believe this range allows investors to benefit from the market's superior return potential and persistent spread pick-up—without liquidity management or technical factors becoming dominant concerns.

Going Beyond with Polen Capital

Polen Capital is a team of experienced investment industry professionals who share an unwavering commitment to our clients, investors, community, and each other. We have been dedicated to serving investors by providing concentrated portfolios of what we believe are the highest-quality companies for more than three decades. At Polen Capital, we have built a culture of results, and in this, an inherent belief in going beyond what's expected for the people and communities we serve.

Connect with Us

For more information on Polen Capital visit **www.polencapital.com** and connect with us on **LinkedIn.**

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Definitions:

Tenor: The tenor is the length of time remaining until a loan or bond matures and the principal is repaid. **Yield to Worst:** A measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting. The metric calculates the yield using the earliest retirement date.

Indexes:

ICE BofA Sterling High Yield Index (HL00): This index tracks the performance of sterling-denominated, below investment grade (high yield) corporate bonds issued in the UK market. The index includes bonds rated below investment grade from both financial and non-financial companies, providing a comprehensive benchmark for UK high yield corporates denominated in pounds sterling. It represents the broad UK high yield bond universe and is widely used to assess performance and risk characteristics of GBP high yield investments. **ICE BofA Euro High Yield Constrained (HEC0):** A variant of the Euro High Yield index that imposes limits on the weighting of individual issuers to reduce concentration risk, while still tracking euro-denominated high yield corporate bonds. **ICE BofA US High Yield Index (H0A0):** A market capitalization-weighted index comprising US dollar-denominated, below investment grade corporate debt publicly issued in the US domestic market.